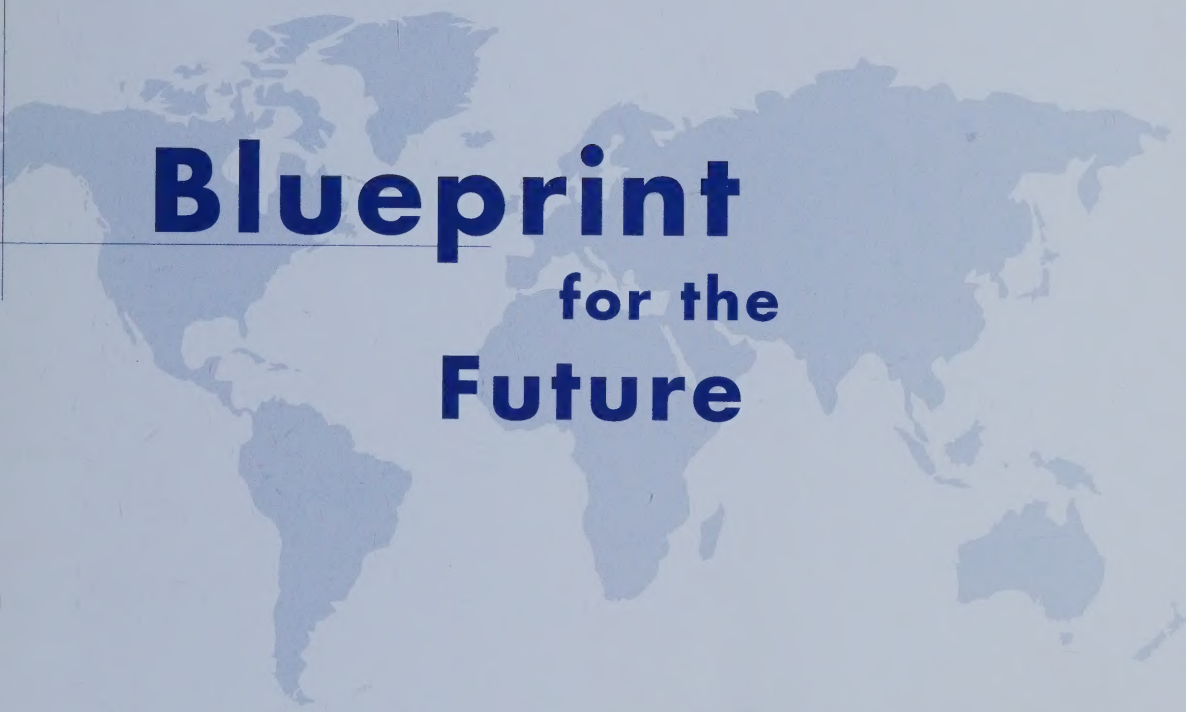


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2001 ANNUAL REPORT

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Blueprint for the **Future**

PELORUS NAVIGATION SYSTEMS INC.





CORPORATE OVERVIEW

Pelorus Navigation Systems Inc. is a global provider of products and services to facilitate safe, reliable aircraft landings. The Company designs, manufactures, installs and maintains navigational systems for airports, and markets its products and services through its own direct sales force and a worldwide network of agents and strategic alliances. With installations on six continents, Pelorus has earned its solid reputation for innovation, quality and product reliability.

The Company's head office is located in Calgary, Alberta, with manufacturing facilities at Calgary and Saskatoon in Canada. Wholly-owned subsidiaries, Pelorus AustralAsia Pty Limited and Interscan International Pty Limited, are headquartered in Sydney, Australia.

Stock Exchange Listing

Canadian Venture Exchange: PN

Fiscal Year-End

May 31

Annual Meeting

The Annual General Meeting of the shareholders of Pelorus Navigation Systems Inc. will be held at 3:00 pm, on Thursday, October 18, 2001, at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta, Canada. Shareholders and others interested in the affairs of the Company are welcome to attend.

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Glossary, Acronyms	Inside Back Cover



Challenge, Opportunity and Reality

For Pelorus Navigation Systems, fiscal 2001 brought challenge and opportunity. Both tested our skills and patience. It was a year of disappointing financial performance; however, decisions were made and actions taken to get the Company back into a positive financial position. From the perspective of the first quarter of the current fiscal year, we believe this can be achieved within fiscal 2002.

The format of this annual report is intended to provide shareholders with an understanding of the events of last year, the current position of Pelorus, and our outlook for the future.

Notwithstanding our poor financial performance in 2001, fiscal 2002 will be positive for conventional navaid sales and, with the infrastructure investments and management changes we have made, we expect to achieve a sustained operating profitability by year-end, diversify our market dependence and complete the work required to support Honeywell to achieve Type Approval for the Honeywell/Pelorus SLS-3000 Satellite Landing System.



REPORT TO SHAREHOLDERS

To Our Shareholders:

Our strategy for fiscal 2001, the year ended May 31, 2001, had three main thrusts:

- Grow our conventional navaid business.
- Support our partner Honeywell in the continued development and implementation of the first public use Satellite Landing System.
- Actively seek further opportunities to diversify and strengthen the Company through strategic alliances and by developing or acquiring complementary technology.

The Realities of Fiscal 2001

We did indeed grow our conventional navaid business during fiscal 2001. As well, shortly after year-end, we announced a marketing agreement that expands our ground-based navaid product line. However, the impact of these achievements was offset by major disappointments in both of our core areas of business.

The satellite landing systems business lost some momentum late in the year when it became official that the performance enhancement

mandated by the FAA and ICAO for LAAS in response to input from major airlines will delay the anticipated date of Type Approval and Operational Approval for the first public-use satellite landing system by about six months to the third quarter of 2002. The performance enhancement includes the capability to support precision navigation operations in the terminal area and enroute. Although this news was disappointing, it certainly validated our strategy to grow the Company's conventional navaid business and develop complementary technology opportunities.

In our conventional navaids business, we were frustrated by unforeseen manufacturing delays and cost overruns that impeded product deliverability from our subsidiary in Australia. Manufacturing gross margins were adversely affected by higher component costs, material delivery delays and cost overruns which accrued to our account from the outsource contract manufacturer in Australia. Late in fiscal 2001, we terminated arrangements with the manufacturer inherited from Plessey and put into action a plan to deliver significant cost reductions, improved quality and enhanced delivery capability from our Australian subsidiary. We will be using the proven skills, quality processes and capabilities resident in our Calgary and Saskatoon facilities to manufacture all the modules for our AustralAsia



*Michael C. J. Beamish, P. Eng.
President & Chief Executive
Officer*

navaid products. Leading that activity will be Gerald Howlett who re-joined Pelorus in the fourth quarter as Vice President, Manufacturing. Gerald's product knowledge, manufacturing experience and leadership skills will positively impact our manufacturing performance.

In fiscal 2001, revenue increased by \$1,049,946 or 26% to \$5,089,547 from \$4,039,601 in fiscal 2000. The operating loss was \$2,500,266 in 2001 compared to an operating profit of \$461,419 in 2000 and a net loss of \$3,252,684 versus net income of \$76,594 last year.

At year-end, the Company's current assets (cash, accounts receivable, inventories, work in progress and prepaid expenses) were essentially equal to the previous year at approximately \$6,000,000. Year-end cash decreased from \$2,788,622 to \$1,932,748 and inventories and work in progress increased from \$694,961 to \$1,936,783 as we implemented our plan to build inventory to meet customer expectations for reduced delivery times.

Quotation activity during the year continued to remain high, but conversions to orders have been slower than forecast. Consequently, inventory and work in progress are higher and revenue growth is below forecast.

A Positive Plan for the Future

We still believe our strategy is on target. In the current fiscal year, we plan to:

- Approximately double our conventional navaid business.
- Achieve operational profitability.
- Complete the Type Approval requirements for the public-use Honeywell/Pelorus SLS-3000 Satellite Landing System.
- Actively seek further opportunities to diversify and strengthen the Company through strategic alliances and by developing or acquiring complementary technology.

Our goal is to achieve an operating profit in the fourth quarter of our 2002 fiscal year. We do not anticipate significant revenue from the Honeywell/Pelorus SLS-3000 until our 2003 fiscal year.



REPORT TO SHAREHOLDERS

(continued)

An Overview of the Global Aerospace Industry

In last year's annual report, I noted that the global aerospace industry is a growing and dynamic industry expected to enjoy a strong growth rate for many years to come. Much like almost everyone else, we did not anticipate last year's melt-down of the 'telecom' sector. This phenomenon has significantly affected the economies of most developed countries and resulted in reduced air travel.

Although the rapid growth in overall air travel experienced in the last few years has slowed somewhat, current market indicators support our firm belief that navaid investments already planned to enhance the air transportation infrastructure worldwide, and particularly in Asia, will continue as planned, with few exceptions.

Our Read on Market Opportunities

In North America, Australia and Europe, the industry focus is on the coming transition to the Global Navigation Satellite System (GNSS). In most of the rest of the world, the focus is on expanding conventional navaid infrastructure.

South America, several European and middle Eastern countries, and Asia will be active markets for conventional navaid products.

Virtually all Asian countries have embarked on major long-term development of their air navigation infrastructure. Other than at capital city airports, the navaid infrastructure in most Asian countries is not adequate to support the demands of modern air transport created by the expansion of their economies in the last five years. Projected navaid expenditures in several South East Asian countries have been postponed due to temporary political instability.

In terms of individual countries, China is the most substantial market and we expect it to continue to be the most active. The recently announced tenth Five Year Plan for the Peoples Republic of China calls for the expenditure of approximately \$13 billion Cdn to construct and/or upgrade 43 airports and provide the air navigation infrastructure to support new and existing airports.

With the delay in implementing satellite landing systems, the market for conventional nav aids has become increasingly competitive; the ability to meet the customer's delivery requirements often determines the placement of the order.

Our Position in the Conventional Navaid Market

In our niche in the air navigation industry, business is built on long-term relationships with customers – relationships that are based on cornerstones of trust, integrity, stability and quality. Meeting customer expectations with a quality product that installs predictably and provides years of trustworthy, trouble free performance is imperative – to the industry and to Pelorus.

Our Australian subsidiary has had an office in Beijing for more than 10 years. Through our team in Beijing, Australia and Canada and our worldwide network of agents and representatives – most of whom have been with us for over a decade – Pelorus is well positioned to pursue and capitalize on opportunities in the conventional navaid market. In order to enhance our competitiveness, we have adjusted the Company's manufacturing strategy from building to order to building for inventory.

Late in fiscal 2001, we were fortunate to be able to engage the services of Dr. Geoff Morris to strengthen our marketing efforts in Europe and the Middle East. Dr. Morris has many years of navaid experience gained as Chief Engineer and Chief Operating Officer of a well respected European navaid manufacturer.

New Navaid Products

Following the 2001 fiscal year-end, we announced an exciting new opportunity for Pelorus with the signing of a marketing agreement with the Rannoch Corporation of Alexandria, Virginia. This agreement allows Pelorus to market the Rannoch family of Automatic Dependent Surveillance (ADS) ground-based systems to the air navigation market in countries where we have an active presence.

Rannoch is a leader in the development of this new technology which offers civil aviation authorities low-cost, radar-like systems to augment existing terminal area traffic data acquisition for air space usage, noise tracking, surface movement and collision avoidance. For example, the Rannoch SY-400 System is designed to provide a primary or backup display for Air Traffic Control and can be installed quickly, simply and at a fraction of the cost of a radar-based system.

The market for ADS is in its infancy and, while it is too early to forecast revenue impact for Pelorus, we are excited about having this family of high-quality products to market to our existing Civil Aviation Authority customers.



REPORT TO SHAREHOLDERS

(continued)

SLS Status Report

In April 2001, FedEx became the first commercial operator to execute LAAS Precision Approaches using the signals broadcast by the Honeywell/Pelorus SLS-3000 LAAS Satellite Landing System installed at Memphis International airport, FedEx's operations centre and major hub for its global operations.

This is an important step in the program driven by private industry in cooperation with the FAA to implement worldwide use of satellite navigation and landing technology. This government-industry partnership program is demonstrating how SLS technology will lead to more efficient use of airspace, enhanced safety with precision approach landings and reduced traffic congestion at the terminal.

During the past year, the U.S. Congress approved a significant increase in funding for the development of LAAS. Although progress toward the widespread use of GPS-based precision approach and landing has been slower than we all planned, there is a consensus that it is no longer a question of 'if' but 'when'.

Even though Type and Operational Approval of the Honeywell/Pelorus SLS-3000 is about one

year away, the system continues to demonstrate its leadership to the world with installations at Memphis and Chicago O'Hare.

The early and notably successful operational experience gained by the SLS-2000 SCAT system and the SLS-3000 public use LAAS/GBAS system will provide a critical competitive advantage in the competition for commercial success.

In the last quarter of fiscal 2001, the Honeywell/Pelorus SLS installation at Chicago O'Hare International Airport was successfully flight-tested and radio frequency interference testing was successfully completed at Chicago Midway airport.

Pelorus People in Transition

In February 2001, Ed Fitzhenry retired as a director and Chairman of Pelorus. Ed, with his wife Shirley at his side, led Pelorus since they founded the Company in 1981. On behalf of my fellow employees, the Board of Directors and our shareholders, I would like to express our sincere appreciation to Ed for the vision, leadership and entrepreneurial energy which he so ably and willingly contributed to build the Company.

Upon Ed's retirement from the Board, we welcomed Dr. P. Michael Maher as Chair of our Board of Directors. Michael recently relinquished his responsibilities as Dean of the Faculty of Management at the University of Calgary and has been a director of numerous large Canadian companies. He brings a wealth of diverse senior management experience to the Pelorus board.

John Lowe will be retiring from the Board at the upcoming annual general meeting. We thank John for his valuable advice as a director.

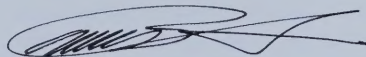
In late May 2001, Peter J. Huff, CISA, CA joined Pelorus as Vice President and Chief Financial Officer. Peter is responsible for all financial operations at Pelorus and is a key member of the management team.

I would be remiss if, on behalf of my colleagues and fellow directors, I did not add a special and sincere thank you to our shareholders. Many of you have been with us for a long time and we

appreciate your commitment, understanding and loyalty. Despite the setbacks of the past year, our management team is positive and enthusiastic about the future and, I assure you, we are working very hard to realize return on your investments in Pelorus.

Lastly, I would like to acknowledge the hard work and team spirit of my fellow employees. Your desire and commitment to 'get the job done' and 'done right' to meet our customers' expectations make Pelorus an exceptional company.

On behalf of the Board,



Michael C. J. Beamish, P.Eng.
President & CEO

September 7, 2001

Calgary, Canada

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis of the financial condition and results of operations of Pelorus Navigation Systems Inc. (the "Company") for the years ended May 31, 2001 and 2000 should be read in conjunction with the audited consolidated financial statements. All dollar amounts are in Canadian dollars unless otherwise noted.

RESULTS OF OPERATIONS

Revenue

Revenues for the fiscal 2001 year increased by 26% to \$5.1 million from \$4.0 million compared to fiscal 2000. Revenue was generated from satellite landing systems (SLS) sales, installation and training (14%) and from sales, installation and maintenance of conventional navaid products such as DME/DVOR systems (86%); this compares to revenue percentages of 69% and 31% respectively for the previous year. Revenues from SLS systems accounted for approximately \$689,000 of the total revenue for fiscal 2001 compared to \$2.1 million for 2000. The decline is a result of the customer base deferring purchases of satellite landing systems until the next-generation product has been approved for public use by the Federal Aviation Administration of the United States ("FAA"). Conventional navaid systems accounted for revenues of \$4.4 million in 2001 compared to \$1.9 million for 2000. The increase in revenue from conventional navaid systems is directly related to management's strategic decision to enhance its focus on conventional navaid products through the acquisition of its Australian subsidiary in April 2000. As a result of this, the Company recorded conventional navaid revenues of \$916,000 from Canadian operations and \$3.5 million from its Australian subsidiary.

Operating and Administrative Expenses

Operating and administrative expenses for fiscal 2001 were \$7.2 million, representing an increase of 113% from 2000. Three factors were responsible for the increase. The 2001 results included a full year of administrative expenses for Pelorus AustralAsia at \$1.46 million versus \$130,000 in 2000; administrative expenses for Canadian operations were comparable between the current and prior fiscal year. Significant weakening of the Australian dollar versus Canadian and U.S. dollars resulted in a larger foreign exchange loss for the current period. As well, gross margins on the sale of conventional navaid products were adversely affected by an increase in component costs and procurement delays attributable to a worldwide shortage of electronic parts and to cost overruns which accrued to the Company's account from the outsource contract manufacturer in Australia. Late in the fiscal year, the Company terminated its arrangement with the contract manufacturer inherited from Plessey and put into action a plan to deliver significant cost reductions, improved quality and enhanced delivery capability from the Australian subsidiary.

Research and Development Expenses

Research and development expenses are associated with ongoing product development and enhancements with respect to existing products, primarily the Honeywell/Pelorus SLS-2000 system enhancement to model SLS-3000 to meet current regulatory standards. Research and development expenses were \$331,000 in fiscal 2001 compared to \$180,000 in 2000.

Amortization

Amortization of capital assets amounted to \$257,000 in 2001 compared to \$134,000 in 2000. The increase relates to additions to capital assets in 2001, primarily equipment.

The Company amortizes deferred research and development costs incurred to develop the Honeywell/Pelorus SLS over the five year period following certification of the system by the FAA in August 1997. Amortization of these costs was \$284,000 for both the 2001 and 2000 fiscal years. As at May 31, 2001, a balance of \$427,000 in deferred research and development costs remains to be amortized over the next 18 months.

In addition to the current year amortization of goodwill of \$25,000, the Company wrote down the remaining amount of goodwill in the amount of \$99,000 to reflect the permanent impairment in value associated with the acquisition of its Australian subsidiary.

Concurrent with the issuance of the convertible debentures in September 2000, the Company incurred a debt discount of approximately \$281,000 relating to the attached option, which represents the equity component of the debentures. This debt discount is being amortized over the initial term of the debenture, \$125,000 of which has been amortized in the current fiscal year. Further, debt issue costs of \$164,000 were incurred with the debenture issue, with \$73,000 being amortized in 2001.

Interest Expense

Interest on long-term debt increased to \$95,000 in 2001 from \$30,000 in the previous year, due to the issuance of the convertible debentures. Approximately \$12,000 of this expense in 2001 was applied as an increase to the deficit, representing the interest expense relating to the equity component of the convertible debentures.

Taxation

The Company is currently not taxable. As at May 31, 2001, the Company has approximately \$5,380,000 of non-capital loss carry-forwards that can be utilized to reduce future taxable income. The Company also has approximately \$7,013,000 of research and development expenses to reduce future taxable income and approximately \$1,304,000 of investment tax credits available to reduce future taxes payable. The benefit of these amounts has not been recorded in the financial statements, as there is uncertainty as to when these future income tax assets will be realized.

BUSINESS ACQUISITION

In the fourth quarter of fiscal 2000, the Company incorporated a wholly-owned Australian subsidiary, Pelorus AustralAsia Pty Limited that acquired a division of Plessey, which operated in the conventional navaid market. The purchase price paid was \$204,750 in cash, plus assumption of approximately \$124,000 of acquisition costs, recorded as goodwill.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

LIQUIDITY AND CAPITAL RESOURCES

As at May 31, 2001 the Company had cash and cash equivalents of \$1.9 million compared to \$2.8 million at the end of fiscal 2000. The working capital surplus was \$1.9 million compared with \$4.9 million for the 2000 fiscal year end. Operations for 2001 resulted in a cash flow deficiency of \$2.4 million compared with a surplus of \$495,000 in 2000. This deficiency is the result of integration of a full year of operations for the Australian subsidiary, increased costs of conventional navaid products and a reduction in the level of revenues from SLS products in North America.

The Company has an operating line of credit of \$150,000 and an \$800,000 letter of credit facility. The line of credit bears interest at bank prime plus 1.25% per annum and is secured by a general assignment of book debts and a general security agreement. The letter of credit facility is secured by an assignment of deposits corresponding to the amounts outstanding. As at May 31, 2001, the Company has not utilized the operating line of credit and has issued letters of credit amounting to approximately \$355,000.

In September 2000 the Company issued convertible subordinate debentures in the amount of \$1.8 million due in March 2002. The debentures bear interest at the rate of 6% per annum and are secured by a floating charge over all assets of the Company, ranking ahead of all creditors except the lender of the demand operating line of credit. The debenture holders have the option of extending the maturity to September 2003 or converting the debentures to common shares at a price of \$1.50 per share. An amount of approximately \$281,000 has been recorded as a debt discount and added

to shareholder equity, representing the value of the option attached to the debentures.

At May 31, 2001 other issues of long-term debt amounted to \$171,000, compared to \$327,000 in 2000. Of the current amount outstanding, \$93,000 is payable in fiscal 2002.

The Company closed a private placement of 2,357,650 Special Warrants in March 2000 at a price of \$1.40 per Special Warrant for net proceeds of \$3.1 million. Each Special Warrant was exercisable for no additional consideration for one common share of the Company and one-half of one common share Purchase Warrant ("Warrant"). Each Warrant entitled the holder to acquire one common share at a price of \$2.25 per common share until March 8, 2001 and at a price of \$3.00 per common share thereafter until March 8, 2002. The Special Warrants were exercised in June 2000, resulting in the issuance of 2,357,650 common shares and 1,178,825 Warrants.

RISK FACTORS AND CONSIDERATIONS

Market Size

While Type Acceptance certification by the FAA of the Honeywell/Pelorus SLS-3000 is an important development in the implementation of the Local Area Augmentation System (LAAS in FAA terminology) or Ground Based Augmentation System (GBAS in ICAO terminology) for precision approach and landing, the technology is not yet an international standard. Although the International Civil Aviation Authority (ICAO), a body of approximately 185 member nations, has endorsed the use of satellite based navigation systems as the

future of global air navigation, it is still necessary to create, approve and implement a universal standard. The ICAO Standards And Recommended Practices (SARPs) have been created by the Global Navigation Satellite System (GNSS) panel and have completed the validation process. These SARPs have been ratified by ICAO members and approved by the ICAO council, and will be published in late 2001. In the United States, the FAA standards for public use of LAAS for precision approach and landing are expected to be implemented following the approval of the ICAO GNSS SARPs.

On operational and economic grounds, the case for a worldwide satellite-based navigational network is compelling. The European Economic Community has taken concrete and positive steps toward implementing a European equivalent (called Galileo) to the U.S. Global Positioning System (GPS) to be operational in 2008. While these steps are very encouraging, there are political and other considerations in the universal adoption of a LAAS/GBAS-based navigation and landing system. The Company and its teaming partner, Honeywell, are working diligently on relevant industry committees to provide test data and analysis on the use and performance of LAAS/GBAS ground station technology. Adoption of LAAS/GBAS by the FAA and ICAO as a precision approach and landing standard is a qualifying factor in the ultimate size of the market for LAAS/GBAS ground stations such as the Honeywell/Pelorus SLS-3000.

Market Timing

Operational use of the Honeywell/Pelorus SLS-3000 will require that aircraft are equipped with appropriate avionics. At present, avionics for the public use LAAS/GBAS precision approach and landing system for the Boeing 727-200 are available from Rockwell Collins. The Rockwell Collins avionics have been installed in a FedEx

Express aircraft and a number of successful landings have been achieved using the Honeywell/Pelorus SLS-3000. Wide-scale adoption of LAAS/GBAS and sales of the Honeywell/Pelorus SLS-3000 may be conditioned by the timing of the availability of suitable avionics. To broaden market acceptance through increased availability, Honeywell and Pelorus are collaborating with avionics manufacturers to encourage an accelerated introduction of LAAS/GBAS airborne solutions for all aircraft types that use precision approach and landing systems.

Regulatory Issues and Competition

The FAA and ICAO are critically important participants in the process of establishing standards and receiving approval of equipment and systems for use in aviation. Thus, schedule and approval risks are a real part of the development of a new navaid technology such as the SLS-2000 and the enhanced version for public use, the SLS-3000. While the Company takes prudent steps to mitigate these risks, they cannot be eliminated as these organizations are outside of our control. In response to industry pressure, the FAA initiated the Government Industry Partnership (GIP) program in the spring of 1998 to help accelerate the implementation of public use LAAS/GBAS. This has also had the effect of helping to raise the profile of the technology and coincidentally the expectations of the customer, the airlines.

The Honeywell consortium consists of almost all the major U.S. airlines, Boeing, over 20 airports, all major avionics manufacturers and the Honeywell/Pelorus LAAS/GBAS Ground Station. There are two other consortia. One is led by the Raytheon Company and the other is led by Thales International. Both are significant competitors in the Air Traffic Management industry. The fact that the majority of the major U.S. airlines and, very significantly, Boeing are members of the Honeywell

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

continued

GIP consortium is a strong endorsement of the SLS-3000 technology and of the Company's belief that LAAS will become the landing system of the future. However, even with the FAA as a partner through the GIP program, schedule and approval risks while significantly reduced are not eliminated.

Product Development

The Honeywell/Pelorus SLS-2000 is still the only system that has received Type Approval by the FAA for meeting the standards (RTCA-DO-217 & FAA order 8400.11) for Special Category I (SCAT-I) precision approach and landing. SCAT-I is the basis for the new, universal, public-use LAAS/GBAS standards. This, and the experience gained from 12 installations and six operational approvals, provides the Honeywell/Pelorus team with a world-leading platform from which to proceed with enhancing the SLS-2000 to meet public-use LAAS/GBAS standards with the SLS-3000. These system enhancements, which require an investment in further development, testing and regulatory approval, commenced in 1999 and should be complete in 2003.

Honeywell Relationship

Global adoption of a new technology such as the SLS requires a marketing effort well beyond the capacity of the Company's resources. Commercial success of the SLS is dependent upon the Company's collaborative agreements with Honeywell. FAA certification of the Honeywell/Pelorus SLS-2000 in August 1997 is a testament to the solid alliance forged between the two companies in January 1995. Honeywell continues to commit the resources necessary to maintain its market leadership and enhance the system to meet the public use LAAS specifications. The Company is intent on performing its obligations under the Honeywell/Pelorus Teaming Agreement and doing what it takes within its capacity to support the SLS program and Honeywell's international marketing efforts.

AUDITORS' REPORT

To the Shareholders of
Pelorus Navigation Systems Inc.

We have audited the consolidated balance sheets of Pelorus Navigation Systems Inc. as at May 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "BDO Reunovsky LLP". The signature is written in a cursive, flowing style.

Chartered Accountants

Calgary, Alberta
July 13, 2001

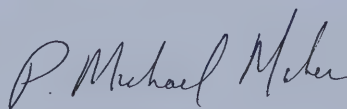
PELORUS NAVIGATION SYSTEMS INC.
CONSOLIDATED BALANCE SHEETS
May 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
ASSETS		
Current		
Cash and term deposits	\$ 1,932,748	\$ 2,788,622
Accounts receivable	2,023,043	2,554,313
Inventories (Note 3)	1,936,783	694,961
Prepaid expenses	142,121	28,096
Current portion of loan and lease receivable (Note 4)	14,445	29,232
	<u>6,049,140</u>	<u>6,095,224</u>
Loan and lease receivable (Note 4)	88,850	119,308
Capital assets (Note 5)	1,244,468	787,331
Deferred design and development costs (Note 6)	426,512	710,786
Goodwill (Note 2)	-	124,061
	<u>\$ 7,808,970</u>	<u>\$ 7,836,710</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 2,406,921	\$ 913,017
Current portion of long-term debt (Note 8)	1,737,006	327,227
	<u>4,143,927</u>	<u>1,240,244</u>
Long-term debt (Note 8)	77,518	-
Long-term employee liabilities (Note 9)	80,071	83,746
	<u>4,301,516</u>	<u>1,323,990</u>
Equity instruments (Note 10)	15,071,932	14,813,001
Contributed surplus	356,808	356,808
Deficit	(11,921,286)	(8,657,089)
	<u>3,507,454</u>	<u>6,512,720</u>
Commitments (Note 13)	<u>\$ 7,808,970</u>	<u>\$ 7,836,710</u>

On behalf of the Board:



Kenneth C. Lett
Director



P. Michael Maher
Director

The accompanying notes are an integral part of these consolidated financial statements.

PELORUS NAVIGATION SYSTEMS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
For the years ended May 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Revenue	\$ 5,089,547	\$ 4,039,601
Operating and administrative expenses	7,175,462	3,367,988
Research and development expenses	331,178	180,367
Interest on long-term debt	83,173	29,827
	<u>7,589,813</u>	<u>3,578,182</u>
Income (loss) before the undernoted	(2,500,266)	461,419
Other income	110,722	33,571
Amortization of capital assets	(256,746)	(134,122)
Amortization of deferred design and development (Note 6)	(284,274)	(284,274)
Amortization and write-down of goodwill	(124,061)	-
Amortization of debt issue costs and debt discount	<u>(198,059)</u>	<u>-</u>
Net income (loss)	(3,252,684)	76,594
Deficit, beginning of year	(8,657,089)	(8,733,683)
Interest on equity portion of convertible debenture (Note 8) (net of income tax of \$Nil)	<u>(11,513)</u>	<u>-</u>
Deficit, end of year	<u>\$ (11,921,286)</u>	<u>\$ (8,657,089)</u>
Earnings (loss) per share (Note 11)		
Basic	\$ (0.30)	\$ 0.01
Weighted average number of shares outstanding	10,764,901	8,427,095

The accompanying notes are an integral part of these consolidated financial statements.

PELORUS NAVIGATION SYSTEMS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended May 31, 2001 and 2000

	2001	2000
Cash flows from operating activities		
Net income (loss)	\$ (3,252,684)	\$ 76,594
Adjustments for:		
Amortization of capital assets	256,746	134,122
Amortization of deferred design and development costs	284,274	284,274
Amortization and write-down of goodwill	124,061	-
Amortization of debt issue costs and debt discount	198,059	-
	<u>(2,389,544)</u>	<u>494,990</u>
Changes in non-cash working capital balances	669,327	(1,145,435)
	<u>(1,720,217)</u>	<u>(650,445)</u>
Cash flows from financing activities		
Issuance of long-term debt	2,016,017	-
Repayment of long-term debt	(281,146)	(43,970)
Share and debt issue costs	(186,702)	(239,318)
Interest on equity portion of convertible debenture	(11,513)	-
Other	(3,675)	169
Proceeds from the issue of special warrants	-	3,300,710
Proceeds from the issue of share capital	-	127,250
	<u>1,532,981</u>	<u>3,144,841</u>
Cash flows from investing activities		
Purchase of capital assets	(721,021)	(46,203)
Proceeds on disposal of capital assets	7,138	1,800
Repayment (advance) of loan and lease receivable	45,245	(29,177)
Acquisition of wholly-owned subsidiary	-	(328,811)
	<u>(668,638)</u>	<u>(402,391)</u>
Increase (decrease) in cash and cash equivalents	(855,874)	2,092,005
Cash and cash equivalents, beginning of year	<u>2,788,622</u>	<u>696,617</u>
Cash and cash equivalents, end of year	<u>\$ 1,932,748</u>	<u>\$ 2,788,622</u>
Cash and cash equivalents is represented by:		
Cash	\$ 1,932,748	\$ 1,307,792
Short-term deposits	<u>-</u>	<u>1,480,830</u>
	<u>\$ 1,932,748</u>	<u>\$ 2,788,622</u>

The accompanying notes are an integral part of these consolidated financial statements.

PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. These consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Basis of financial statement presentation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Pelorus AustralAsia Pty Limited. All material inter-company accounts and transactions have been eliminated on consolidation.

Revenue recognition

The Company recognizes revenue on manufacturing and installation contracts using the percentage of completion method. Percentage of completion is determined either as the proportion of costs incurred to expected contract costs, or is based on the percentage of labour to total expected labour costs. In applying the percentage of completion method, management evaluates each contract to determine the basis that best reflects the stage of completion for the particular contract. Included in accounts receivable are unbilled amounts of \$1,240,364 (2000 - \$1,763,525) related to the Company's contracts in progress. As management expects to deliver all these contracts within the ensuing fiscal period, the unbilled amounts have been recorded as current accounts receivable.

Inventories

Inventories are recorded at the lower of cost (based on a first-in, first-out basis) and net realizable value. Work-in-progress is recorded at the lower of cost and fair market value.

Goodwill

Goodwill is recorded at cost in excess of the amounts attributable to the net identifiable assets and liabilities. Goodwill is being amortized on a straight-line basis over a period of 5 years. Amortization for the year ended May 31, 2001 includes an additional amount of \$99,248 representing the write-down of the remaining goodwill due to impairment in value.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is being provided for based on the following annual rates and methods:

Machinery and equipment	- 15% declining balance basis
Furniture and fixtures	- 20% declining balance basis
Automotive	- 30% declining balance basis
Leasehold improvements	- 17% straight-line basis

Foreign currency translation

The Company accounts for its investment in its foreign operations and other amounts denominated in a foreign currency using the temporal method of foreign currency translation. Under this method, transactions denominated in a foreign currency are translated into Canadian dollars based on the following: monetary assets and liabilities outstanding are translated using the exchange rate in effect at the balance sheet date; non-monetary assets and liabilities are translated using the historical rate of the transaction; and revenue and expenses are translated into Canadian dollars using the exchange rate at the date of the transaction. Foreign exchange gains and losses incurred on foreign exchange translation are recorded in operations in the period in which they are incurred.

Deferred design and development costs

Design and development costs in relation to new products are deferred and capitalized, net of investment tax credits claimed, if such credits are reasonably expected to be utilized. These costs include design costs, direct materials, wages and other overhead attributable to the development of new products. These costs are being amortized using the straight-line method over a period of 5 years.

Ongoing research and development costs related to developed products are expensed during the year they are incurred, net of related investment tax credits claimed, if such credits are reasonably expected to be utilized.

PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

1. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

The Company carries various financial instruments. Unless otherwise indicated, it is management's opinion that the Company is not exposed to significant interest rate, foreign currency rate, or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

Future income taxes

Effective June 1, 2000, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The new method has been applied retroactively with no resulting effect on prior years' results. Under the recommendations, the liability method of tax allocation is used, based upon differences between the financial reporting and tax bases of assets and liabilities. Previously, the Company followed the deferral method.

Stock-based compensation plan

The Company has stock-based compensation plans. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

2. BUSINESS ACQUISITION

During 2000, the Company incorporated a wholly-owned subsidiary, Pelorus AustralAsia Pty Limited ("AustralAsia") for the purpose of purchasing the aerospace division assets of Plessey Asia Pacific Pty Limited ("Plessey"), including Plessey's wholly-owned subsidiary Interscan International Pty Limited. Plessey is a company that is in the business of developing, manufacturing, installing, maintaining and marketing ground-based navigation in the Asia Pacific market.

These consolidated financial statements include the results of operations of AustralAsia from the date of acquisition of March 31, 2000. The purchase price of Aus \$225,000 (Cdn \$204,750) for the acquisition was determined based on the fair value of the underlying assets and liabilities of Plessey as negotiated by the Company and Plessey's shareholders. The Company paid \$204,750 in cash for the acquisition. Acquisition costs of \$124,061 were also incurred to effect the purchase and have been recorded as part of the purchase price. The following assets and liabilities were acquired from Plessey:

Current assets	\$	573,861
Long-term assets		119,363
Capital assets		41,958
Current liabilities		(446,855)
Long-term employee liabilities		(83,577)
		<u>204,750</u>
Purchase price		<u>328,811</u>
Excess of purchase price over net identifiable assets and liabilities representing goodwill	\$	<u>124,061</u>

3. INVENTORIES

	2001	2000
Raw materials	\$ 938,480	\$ 414,530
Work in progress	<u>998,303</u>	<u>280,431</u>
	<u>\$ 1,936,783</u>	<u>\$ 694,961</u>

PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

4. LOAN AND LEASE RECEIVABLE

	2001	2000
Lease receivable for the lease of equipment. Due in annual instalments of \$14,445, is non-interest bearing and is secured by the equipment leased.	\$ 103,295	\$ 117,740
Loan receivable from the sale of equipment. Due in monthly payments of \$1,393 including interest at the rate of 8% per annum and secured by the equipment sold.	-	30,800
	103,295	148,540
Less: current portion	(14,445)	(29,232)
	<u>\$ 88,850</u>	<u>\$ 119,308</u>

5. CAPITAL ASSETS

	2001		2000	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Machinery and equipment	\$ 2,093,257	\$ 1,002,256	\$ 1,201,983	\$ 707,462
Furniture and fixtures	204,541	122,242	486,827	245,342
Automotive	19,174	15,722	19,174	14,242
Leasehold improvements	237,920	170,204	171,283	124,890
	<u>\$ 2,554,892</u>	<u>\$ 1,310,424</u>	<u>\$ 1,879,267</u>	<u>\$ 1,091,936</u>
Net book value	<u>\$ 1,244,468</u>		<u>\$ 787,331</u>	

6. DEFERRED DESIGN AND DEVELOPMENT COSTS

The Company has deferred design and development costs, including direct labour, materials and other general and administrative overhead attributable to the development of the new generation satellite landing system. Deferred costs include the following:

	2001	2000
Design costs	\$ 1,282,280	\$ 1,282,280
Labour	749,111	749,111
Material	713,116	713,116
Other overhead	300,821	300,821
Interest and financing	35,153	35,153
	3,080,481	3,080,481
Less: accumulated amortization and write-off	(2,653,969)	(2,369,695)
	<u>\$ 426,512</u>	<u>\$ 710,786</u>

7. BANK INDEBTEDNESS

8. LONG-TERM DEBT

Principal repayments of long-term debt over the next three years are as follows: 2002 - \$1,737,006, 2003 - \$42,539 and 2004 - \$34,979.

9. LONG-TERM EMPLOYEE LIABILITIES

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PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

10. EQUITY INSTRUMENTS

Authorized

Unlimited number of:

Common shares

First preferred shares, issuable in series

Second preferred shares, issuable in series

Issued

	2001		2000	
	Number of Shares	Amounts	Number of Shares	Amounts
Common shares				
Balance, beginning of year	8,527,027	\$ 11,751,609	8,392,027	\$ 11,624,359
Issued on conversion of special warrants	2,357,650	3,061,392	-	-
Issued on completion of agreement	25,000	27,000	-	-
Share issue costs	-	(49,437)	-	-
Issued for cash on exercise of options	-	-	135,000	127,250
	10,909,677	14,790,564	8,527,027	11,751,609
Special warrants				
Balance, beginning of year	2,357,650	3,061,392	-	-
Issue of special warrants	-	-	2,357,650	3,300,710
Issue costs	-	-	-	(239,318)
Converted to common shares	(2,357,650)	(3,061,392)	-	-
Convertible Debenture				
Equity portion relating to option	-	281,368	-	-
	10,909,677	\$ 15,071,932	10,884,677	\$ 14,813,001

Employee stock options

The Company has established a stock option plan for the benefit of the directors, officers and employees of the Company. Options may be granted to purchase up to 10% of the common shares of the Company at any time at a price of not less than 90% of the current market price as listed on a stock exchange or, if the common shares are not then listed on a stock exchange, the exercise price will be as determined by the Board of Directors of the Company. The Company also received board and regulatory approval to issue an additional 200,000 options to directors in lieu of cash compensation. A summary of stock option transactions for the years ended May 31, 2001 and 2000 is as follows:

	2001		2000	
	Options Outstanding	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price
Balance, beginning of year	970,750	\$ 1.59	828,750	\$ 1.63
Granted	200,000	.67	302,000	1.17
Exercised	-	-	(135,000)	.94
Cancelled/Expired	(155,750)	1.39	(25,000)	1.80
Balance, end of year	1,015,000	\$ 1.46	970,750	\$ 1.59

PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

10. EQUITY INSTRUMENTS - continued

The following table summarizes the stock options outstanding and exercisable under the stock option plan as at May 31, 2001:

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life		Number Exercisable	Weighted Average Exercise Price
\$0.60 - \$1.00	227,000	3.7	\$0.81	167,000	\$0.88
\$1.01 - \$1.40	135,000	3.9	1.09	135,000	1.09
\$1.41 - \$1.80	653,000	2.3	1.51	653,000	1.51
\$0.60 - \$1.80	1,015,000	2.8	\$1.46	955,000	\$1.51

Warrants

On March 8, 2000, the Company issued 2,357,650 special warrants at a price of \$1.40 per special warrant for gross proceeds of \$3,300,710. Each special warrant was exercisable, for no additional consideration, for one common share of the Company and one-half of one common share purchase warrant. Each common share purchase warrant entitles the holder to acquire one common share of the Company at \$2.25 per share until March 8, 2001 and at a price of \$3.00 per share until March 8, 2002. On June 23, 2000, 2,357,650 common shares and 1,178,825 common share purchase warrants were issued upon the exercise of 2,357,650 special warrants of the Company.

11. EARNINGS PER SHARE

Fully diluted earnings per share has not been presented, as it is not materially different from basic earnings per share.

12. INCOME TAXES

Income taxes reported differ from the amount computed by applying the combined statutory federal and provincial income tax rate of 44% to income (loss) before income taxes. The reasons for the difference and the tax effects are as follows:

	2001	2000
Provision for income taxes expected based upon a statutory rate of 44%	\$ (1,431,181)	\$ 33,701
Unrecognized (realized) deferred tax assets	1,304,583	(33,701)
Variance in rate on foreign loss	126,598	-
	\$ -	\$ -

The Company has research and development costs of \$7,012,742 available to reduce future taxable income and investment tax credits of \$1,304,246 available to reduce future taxes payable, subject to confirmation by taxation authorities. The investment tax credits expire in varying amounts over the years 2002 to 2010. The research and development cost pool will be reduced by the amount of any investment tax credits utilized. The future tax benefits of the net research and development cost pools and investment tax credits being carried forward have not been recognized in these consolidated financial statements.

The Company has incurred non-capital losses for income tax purposes of approximately \$5,380,000 which are available to reduce taxable income in future years. If unutilized, these losses will expire approximately as follows: 2004 - \$ 942,000, 2005 - \$1,047,000, 2006 - \$1,189,000 and 2007 - \$2,202,000.

PELORUS NAVIGATION SYSTEMS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2001 and 2000

13. COMMITMENTS

The Company is committed to operating leases for the rental of office and manufacturing space. The aggregate yearly rental under the terms of these leases is as follows: 2002 - \$183,521, 2003 - \$99,387, 2004 - \$96,246, 2005 - \$96,246, and 2006 - \$16,041.

The Company has issued letters of credit totaling \$354,712. These letters of credit expire as follows: 2002 - \$262,156 and 2003 - \$92,556.

14. SEGMENTED INFORMATION

As the Company's product lines all relate to the avionics equipment industry and are under common management, they have been aggregated as one operating segment.

Included in revenues for the year are sales to customers in the United States in the amount of approximately \$689,000 (2000 - \$1,978,000) and Asia Pacific in the amount of \$3,057,000 (2000 - \$651,000). Capital assets owned by the Company are located in Canada in the amount of \$958,490 and Asia Pacific in the amount of \$285,797.

The Company has \$3,406,000 (2000 - \$3,108,212) of sales to three customers (2000 - two customers) that represent 67% (2000 - 77%) of total revenues.

15. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to foreign currency risk, interest rate risk, fair value, and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Interest rate risk management

The fixed interest rate debt is subject to interest rate price risk, as the fair value of debt will fluctuate as a result of changes in market rates. As at May 31, 2001, the Company has fixed interest rates on approximately \$1,970,840 of its long-term debt obligations.

Foreign currency rate risk management

A significant portion of the Company's accounts receivable and accounts payable are denominated in U.S. and Australian dollars. Accordingly, the net amounts outstanding are subject to fluctuations in exchange rates. The Company does not have any exposure to highly inflationary foreign currencies.

Credit risk

A significant portion of the Company's trade accounts receivable are from companies and governmental authorities in the avionics equipment industry and as such, the Company is exposed to all the risks associated with that industry.

16. STATEMENTS OF CASH FLOWS

Changes in non-cash working capital

	2001	2000
Accounts receivable	\$ 531,270	\$ (1,618,658)
Inventories	(1,241,822)	193,427
Prepaid expenses	(114,025)	(15,294)
Accounts payable and accrued liabilities	1,493,904	295,090
	<u>\$ 669,327</u>	<u>\$ (1,145,435)</u>

Interest paid

	2001	2000
Interest paid	\$ 94,686	\$ 29,827

BOARD OF DIRECTORS

(At September 7, 2001)

Michael C. J. Beamish, P.Eng.
President & CEO
Pelorus Navigation Systems Inc.

Donald J. Douglas
President & CEO
United Inc.

Kenneth C. Lett
President & CEO
Executive Flight Centre Inc.

John A. Lowe
Independent Businessman

P. Michael Maher, PhD
Chair, Pelorus Navigation
Professor, Faculty of Management
University of Calgary

David L. Mitchell, PhD
Independent Businessman

OFFICERS & KEY PERSONNEL

Michael C. J. Beamish, P.Eng. *
President & Chief Executive Officer
Pelorus Navigation Systems Inc.

Gerald A. Howlett *
Vice President, Manufacturing
Pelorus Navigation Systems Inc.

Peter J. Huff, CA *
Vice President & Chief Financial Officer
Pelorus Navigation Systems Inc.

Donald F. C. Sinclair *
Vice President, Operations & Marketing
Pelorus Navigation Systems Inc.

Erwin Stuhr, P.Eng.
Manager, Engineering
Pelorus Navigation Systems Inc.

Ronald B. Gosbee *
Vice President & General Manager
Pelorus AustralAsia Pty Limited

David Archibald
Sales Manager
Pelorus AustralAsia Pty Limited

Edward A. Johnson
Project Manager
Pelorus AustralAsia Pty Limited

Wu Feng (Frank)
Sales Manager, China
Pelorus AustralAsia Pty Limited

Dr. Geoff Morris C.Eng., FIEE
Marketing Director, Europe
Pelorus AustralAsia Pty Limited

** Officer of the Company*



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and

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**PELORUS NAVIGATION
 SYSTEMS INC.**

Transfer Agent & Registrar

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 Calgary, Alberta T2P 3S8

Auditors

BDO Dunwoody LLP
 1500, 800 - 6th Avenue S.W.
 Calgary, Alberta, Canada T2P 3G3

Banker

National Bank of Canada
 600, 407 - 8th Avenue S.W.
 Calgary, Alberta, Canada T2P 1E5

Stock Exchange

Canadian Venture Exchange
 Symbol "PN"

Shareholders and other interested parties are encouraged to access Company information, news releases and interim financial reports on our website <http://www.pelorus.com>. News releases and financial information are also posted on the System for Electronic Data Analysis and Retrieval ("SEDAR") at www.sedar.com.

Glossary, Acronyms

ADS..... Automatic Dependent Surveillance
 ADS-B..... Automatic Dependent Surveillance – Broadcast
 avionics..... instrumentation installed in an aircraft for
 operation and navigation
 AWOS..... Automated Weather Observation (and
 Reporting) System
 CAT-I..... Category I (term to describe navigation
 requirements of a landing approach using an
 unrestricted public use precision approach
 and landing system)
 DGPS..... Differential Global Positioning System
 DME..... Distance Measuring Equipment
 DVOR..... Doppler Very high frequency Ominidirectional
 radio Range equipment
 EUROCAE..... European Organization for Civil Aviation
 Equipment
 FAA..... Federal Aviation Administration (U.S.)
 GBAS..... Ground Based Augmentation System (ICAO
 terminology for LAAS)

GIP..... Government Industry Partnership (FAA
 program)
 GNSS..... Global Navigation Satellite System
 GPS..... Global Positioning System
 ICAO..... International Civil Aviation Organization
 ILS..... Instrument Landing System
 LAAS..... Local Area Augmentation System (FAA
 terminology for GBAS)
 MLS..... Microwave Landing System
 navaid..... general term for ground-based device or
 system that provides information to facilitate
 aviation navigation
 RTCA..... Radio Technical Commission for Aeronautics
 SCAT-I..... Special Category-I (term to describe
 navigation requirements of a landing
 approach using a private or restricted use
 precision approach and landing navaid)
 SLS..... Satellite Landing System
 VOR..... Very high frequency Omnidirectional radio
 Range equipment

PELORUS NAVIGATION SYSTEMS INC.

